

December 21, 2004

VIA HAND DELIVERY

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, Second Floor  
Boston, MA 02110

Re: *Western Massachusetts Electric Company*, D.T.E. 04-106  
Offer of Settlement

Dear Secretary Cottrell:

Western Massachusetts Electric Company (“WMECO” or the “Company”) takes this opportunity to summarize its position on the Settlement Agreement submitted to the Department of Telecommunications and Energy (“Department”) by WMECO, the Attorney General of the Commonwealth of Massachusetts (“Attorney General”), the Associated Industries of Massachusetts (“AIM”), and the Low-income Energy Affordability Network (“LEAN”) (collectively, the “Parties”), on November 16, 2004.<sup>1</sup> WMECO hopes this summary assists the Department in determining that the Settlement Agreement benefits WMECO’s customers.

As evidenced by the entities supporting it, the Settlement Agreement has broad support. The Attorney General has historically been vigilant in protecting the interests of customers in the Commonwealth and would only enter into a settlement if it was in customers’ best interests. The Attorney General has always been particularly vigilant in making sure that residential customers are adequately protected. On the business side of the ledger, the Settlement Agreement is supported by the Associated Industries of Massachusetts, an established and respected business organization, representing 7600 employers across the Commonwealth.<sup>2</sup> Finally, a coalition of low-income advocates, known as LEAN, has also now signed on to the Settlement Agreement and urges its approval.

---

<sup>1</sup> LEAN became a signatory to the Settlement Agreement on December 17, 2004. An amended Settlement Agreement was filed with the Department on this date.

<sup>2</sup> AIM apparently includes as members the three businesses said to be represented by the Western Massachusetts Industrial Customer Group in this proceeding. Tr. p. 11 (December 3, 2004).

WMECO believes this Settlement Agreement is important to its customers for a number of reasons. First, the Settlement Agreement provides rate relief to WMECO's customers by decreasing the sum of the rates seen by customers for the distribution, transmission and transition charge portion of electric bills for each of the years 2005 and 2006, compared to 2004. This reduction will be accomplished through a lowering of the transition charge for 2005 and 2006 and an increase to the distribution component of WMECO's rates in 2005 and 2006. The 2005 increase will be \$6.0 million and the increase in 2006 will be a further \$3.0 million. These settlement levels are much lower than the approximately \$17 million increase (or \$34 million for 2005 and 2006) shown in WMECO's rate case filing submitted to the Department on November 16, 2004. The distribution rate increase would be the first such rate increase allowed for WMECO since 1992. It is perhaps stating the obvious to report that costs, including health care and pension costs, have increased very substantially in the last 12 years, and that few, if any, businesses are charging the same prices for their goods and services in 2004 as they did in 1992.

Customers reap other important benefits in this Settlement Agreement, including a favorable sharing mechanism should WMECO's earnings increase over a certain level and the expansion of the NUStart program intended to aid low-income customers. WMECO will share earnings with its customers should its return on equity exceed 11.0 percent during 2005 and 2006. WMECO is unaware of any utility with a sharing mechanism as generous to customers. Another benefit is the significant expansion of the NUStart program. As low-income customers struggle to pay for their energy costs with the prices of oil, gas, and other fuels on the rise, the expansion of NUStart is an important customer initiative. Further, the Settlement Agreement ensures that a substantial level of the Company's resources will go toward capital projects in the next two years, thus providing some additional confidence in the reliability of WMECO's system.

WMECO has in excess of 200,000 customers and many other parties that are keenly interested in the rates charged by WMECO (for example, energy suppliers and community groups). It is very gratifying and telling, therefore, that no group, save one, has in any way challenged the Settlement Agreement put before the Department on November 16, 2004 and amended on December 17, 2004. Clearly, there is very little opposition to this Settlement Agreement.

WMECO has indicated that it would file a rate case for approximately \$16.9 million should the Settlement Agreement be rejected by the Department. WMECO does not know whether it would prevail on every issue in a litigated case and whether it would be allowed the entire \$16.9 million. There may be considerations that WMECO has not recognized that would leave it with less than \$16.9 million.<sup>3</sup> A prime reason WMECO has accepted a settlement for far less than the \$16.9 million is the uncertainty, time and resource demands inherent in a full-blown rate case. It is not necessary for the Department to conclude that WMECO would be entitled to \$16.9 million in order for the

---

<sup>3</sup> There may also be considerations that increase WMECO's revenue requirements above the \$16.9 million level.

Department to approve the Settlement Agreement. Rather, it is only necessary for the Department to find that the Settlement Agreement, taken as a whole, produces a fair result. *Blackstone Gas Company*, D.T.E. 04-79, p. 7 (October 1, 2004). The Settlement Agreement should also produce just and reasonable rates. *Western Massachusetts Electric Company*, D.P.U. 96-8C-1, 97-8C-1, 98-8C-1, 99-8C-1, D.T.E. 97-120; D.T.E. 00-33, p. 5 (August 4, 2000); *Western Massachusetts Electric Company*, D.P.U. 94-8C-A, 95-8C-A, 96-8C-A, p. 9 (April 30, 1996).

The fairness of a settlement, of course, must consider all its elements. In this instance, WMECO asserts the distribution revenue increases are fair by themselves, but, in addition, the other provisions of the Settlement Agreement provide substantial supplemental benefit to customers. These are itemized in the Settlement Agreement and a few are mentioned above. However, the Department should weigh very heavily the fact that the Settlement Agreement means that overall rates, apart from commodity costs, will decrease. This Settlement Agreement is not only fair to customers; it provides the most value to them when compared to any other conceivable outcome.

In conclusion, the Settlement Agreement presented to the Department in this proceeding has broad support. It fully meets the Department's standard for approval in that the Settlement Agreement is consistent with precedent and the public interest and results in just and reasonable rates.

Very truly yours,

Stephen Klionsky  
100 Summer Street, 23<sup>rd</sup> Floor  
Boston, MA 02110  
617/345-1066

cc: Paul G. Afonso  
James Connelly  
W. Robert Keating  
Eugene J. Sullivan, Jr.  
Deidre K. Manning  
Andrew O. Kaplan  
John Geary  
Service List